

SOUTH AFRICA'S CLIMATE RESPONSE: CARBON TAX AND OTHER FISCAL INITIATIVES

Webinar on South Africa's Fiscal
Policies (IISD, Global Subsidies
Initiative and TIPS)

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**STAY
SAFE**

VACCINATE TO SAVE SOUTH AFRICA

COP 26 Outcomes – 2021 Glasgow Pact and SA's NDC Commitments

- The Glasgow Climate Pact requires countries to *“transition towards low-emission energy systems, including by rapidly scaling up the deployment of clean power generation and energy efficiency measures, including accelerating efforts towards the phasedown of unabated coal power and phase-out of inefficient fossil fuel subsidies”*.
- It further recognises the **need for support for a just transition** and targeted support to the poor and most vulnerable based on national circumstances.
- As a **top 20 emitter of greenhouse gas emissions globally**, South Africa made commitments under the 2015 Paris Climate Agreement to further reduce our greenhouse gas emissions and to contribute to global efforts to limit warming to well below 2°C above pre-industrial levels and to pursue efforts to achieve the 1.5°C temperature goal.
- **Our commitments are set out in the 2nd and 3rd Nationally Determined Contributions (NDCs)** submitted to the UNFCCC at the COP26 meeting. This requires a peaking of our greenhouse gas emissions in 2025 in the range of 398 to 510 Megatonnes (Mt) and a sharp decline in emissions from 2026 onwards in the range of 350 to 420Mt. A rapid and significant decline in greenhouse gas emissions from the energy sector is crucial
- The NDC notes the **carbon tax** as an important component of our **mitigation policy** strategy to lower GHG emissions.
- **The IPCC Working Group I sixth assessment report shows that the world will probably reach or exceed 1.5 degrees C (2.7 degrees F) of warming within just the next two decades.** in particular Sub-Saharan Africa has seen increased incidences in heat waves, heavy rainfall, fires and droughts which will continue to affect livelihoods, agriculture, water systems and ecosystems. **Some impacts, such as sea level rise, will not be reversible**

Environmental Fiscal Reform Policy - Rationale for Carbon tax and design considerations

- **Policy rationale for a carbon tax directly related to saving SA and the world from adverse climate change**
 - “The introduction of a carbon price will change the relative prices of goods and services, making emission-intensive goods more expensive relative to those that are less emissions intensive. This provides a powerful incentive for consumers and businesses to adjust their behaviour, resulting in a reduction of emissions
 - Although this option does not set a fixed quantitative limit to carbon emission over the short term, a carbon tax at an appropriate level and phased in over time to the “correct level” will provide a strong price signal to both producers and consumers to change their behaviour over the medium to long term.
 - A carbon price / tax will influence future investment decisions and reduce the price-cost differentials between fossil fuel-based electricity and renewable energy.
 - A carbon tax that is implemented gradually and complemented by effective and efficient revenue recycling can contribute to significant emission reductions;
- **First mover competitive advantage gains among developing countries** creates incentives to leapfrog development via early adoption of low carbon technologies through research, development, innovation.
- **Minimise potential adverse impacts on low-income households and industry competitiveness** through targeted revenue recycling;
- A **reduction of GHG emissions also improves air quality** hence environmental quality.

Phase 1 carbon tax design: Rate, Tax-free Allowances and Recycling Measures

Tax rate and emissions allowances

Carbon tax rate of R134/ton CO₂e in 2021

60% basic tax-free threshold

Max of 10% tax-free allowance for trade exposure

10% tax-free allowance for process and fugitive emissions

Up to 5% performance allowance

5% tax-free allowance for complying with carbon budgets information requirements

5 or 10% allowance for Carbon Offsets – to reduce the carbon tax liability

- Tax-free allowances of **60-95%** - effective tax rate of R6 to ~R50

- No impact on electricity prices in the first phase

- Phase 1: 1 June 2019 to 31 Dec 2022

Revenue Recycling

Energy Efficiency Savings tax incentive

Credit against Eskom's carbon tax liability for the **renewable energy premium** built into the electricity tariffs

Credit for the **electricity levy**

Support for the installation of solar water geysers

Enhanced free basic electricity / energy for low income households

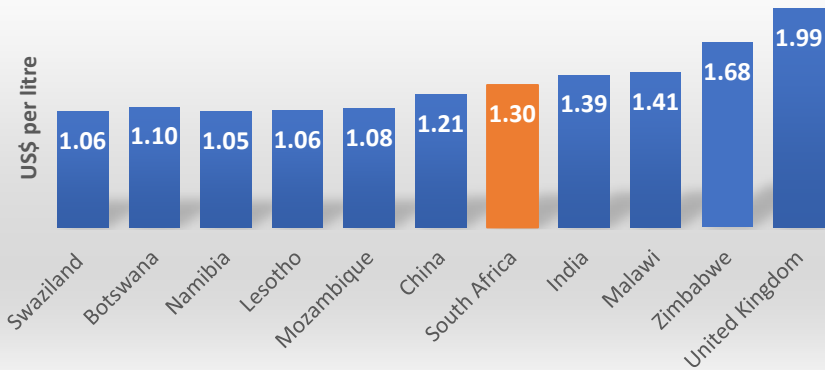
Improved public passenger transport & support for shift of freight from road to rail

Phase 2 carbon tax considerations

- To achieve our NDCs, net zero emissions goals and reduce the pressure on exports facing CBAMs, an increase in the headline carbon tax rate is necessary.
- Appropriateness of the rate of the carbon tax and the tax-free thresholds taking into account NDC commitments under the Paris Agreement.
- Current effective carbon tax rate for South Africa ranges from US\$0,5 to US\$3.6/tCO_{2e}. Inflationary increases (2022 – 4.2%; 2023 – 4.5%) – **resulting in a carbon tax rate of US\$10 (R149)/tCO_{2e}.**
 - High level carbon pricing commission proposed carbon tax rates ranging from \$50 to 100 by 2030
 - A global carbon price floor of **US\$25 (R375))/tCO_{2e}** proposed by the IMF to help achieve a 23% reduction in global emissions below baseline by 2030, enough to bring emissions in line with keeping global warming below 2°C
- The National Treasury published a carbon tax modelling report entitled: ***“Modelling the Impact on South Africa’s Economy of Introducing a Carbon Tax” in November 2016.*** The modelling results suggests that the carbon tax will have a significant impact on reducing South Africa’s GHG emissions and would lead to an estimated decrease in emissions of 13 to 14.5 per cent by 2025 and 26 to 33 per cent by 2035 compared with business-as-usual.
- Model assumes a gradual phasing out of the tax free allowances under the carbon tax by 10 per cent/yr

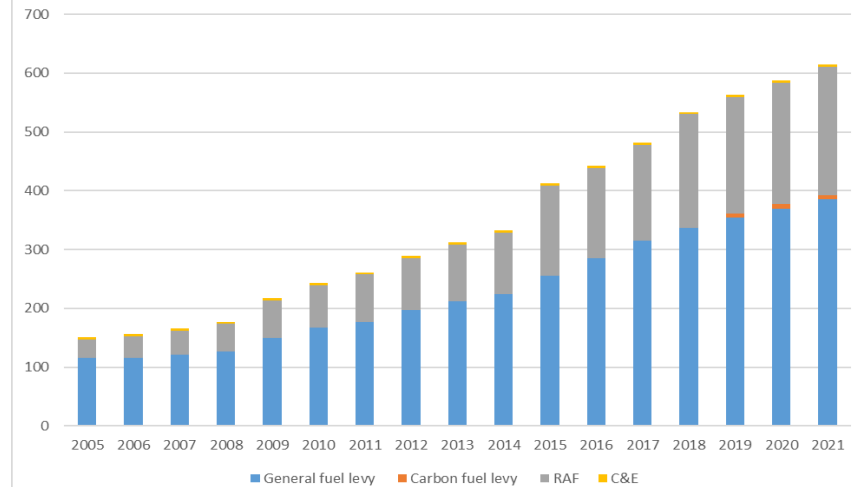
Fuel pricing and taxation

Petrol prices 17 January 2022

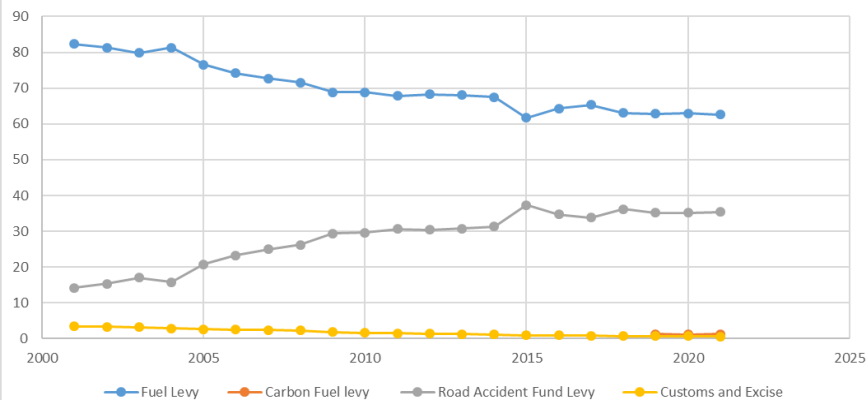


Source: globalpetrolprices.com/gasoline_prices/#h153

Composition of Fuel Taxes (2005-2021)



Decline in fuel levy contribution from 82 to 63 per cent of total fuel taxes, increase in RAF since 2015 and constant carbon fuel and customs levies



Year	Average annual ULP 93 price (inland c/l)	Fuel taxes (c/l)	Fuel taxes as percentage of ULP petr price (%)
2008	885,83	177,50	20%
2009	723,42	218,00	30%
2010	809,25	243,50	30%
2011	982,00	261,50	27%
2012	1136,58	289,50	25%
2013	1269,92	312,50	25%
2014	1374,18	332,50	24%
2015	1221,70	413,00	34%
2016	1234,92	443,00	36%
2017	1341,77	482,00	36%
2018	1519,25	534,00	35%
2019	1547,75	563,00	36%
2020	1449,67	588,00	41%
2021	1736,00	615,00	35%

Facilitating a Just Energy Transition - Electricity market reforms and competition

- Budget 2019 recognised the need to:
 - Position the electricity sector to embrace clean technology, distributed generation and respond to other changes taking place in the electricity sector.
 - Diversify the generation of electricity across a multitude of power producers, thereby reducing the country's reliance on a single supplier;
 - Provide open access to the grid including for renewable, from independent generators.
 - Generate competition in the electricity market that is expected to drive improvements in efficiency and put downward pressure on prices.
 - Crowd-in private investment into the electricity sector.
- Splitting Eskom into separate companies responsible for the different functions – starting with the creation of an independent transmission entity, combined with the system operator – will set the electricity sector on a new path

Conclusions

- National Treasury regards climate-change as the biggest risk facing human kind, and the need for globally-coordinated action
 - Good examples are steps taken after 2008 Global Financial Crisis and 2019 COVID
- **Well-designed carbon pricing measures provides adequate incentives for behavior change of businesses and consumers** and encourage a shift towards lower carbon and energy efficient technologies and practices in the short term, and dynamic incentives for investments in research development and technology innovation over the medium to longer term.
- **Key tool is the CARBON TAX**, which can still be made tougher and wider, to reduce GHG emissions to meet SA commitments to reducing GHG emissions
 - So future GHG EMITTERS : the carbon tax will be higher for those not making cleaner investments to reduce their emissions for the future!
- **Announcements on the 2nd phase carbon tax proposals** will be made in Budget 2022.
- **Many other initiatives at Treasury related to energy sector reforms, sustainable finance and future policy and budget process**, like cleaner energy, transport etc working across Govt

Thank you